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COMMONWEALTH OF MASSACHUSETTS

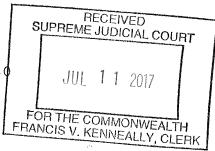
SUPREME JUDICIAL COURT

FOR THE COMMONWEALTH.

SUPREME JUDICIAL COURT NO.

APPEALS COURT NO. 2017-P-083

SUFFOLK COUNTY.



COUNTRY MUTUAL INSURANCE COMPANY,
AS SUCCESSOR TO HOLYOKE MUTUAL INSURANCE
COMPANY IN SALEM and
MARYLAND CASUALTY COMPANY,
Plaintiffs-Appellees,

v.

VIBRAM USA, INC., and VIBRAM FIVEFINGERS, LLC, Defendants-Appellants.

ON APPEAL FROM A JUDGMENT OF THE SUPERIOR COURT.

Joint Application of Defendants-Appellants and Plaintiffs-Appellees for Direct Appellate Review.

I. REQUEST FOR DIRECT APPELLATE REVIEW

Plaintiffs-Appellees Country Mutual Insurance Company, as Successor to Holyoke Mutual Insurance Company in Salem ("Holyoke"), and Maryland Casualty Company ("Maryland")

(collectively, the "Insurers"), and Defendants-Appellants
Vibram USA, Inc. and its affiliate, Vibram FiveFingers, LLC¹
(collectively, "Vibram") respectfully jointly apply for
direct appellate review of the Superior Court's Final
Judgment dated March 23, 2017 (the "March 23, 2017
Judgment"). Direct appellate review is appropriate because
this appeal presents novel issues of insurance law that
have yet to be addressed by any Massachusetts appellate
court and that are of significant public interest.

Specifically, this appeal raises questions of first impression regarding the scope of an insurer's duty to defend under the coverage grant for "personal and advertising injury" that is widely used in commercial general liability policies. The insured sought coverage for defense costs and indemnity arising in connection with an underlying action alleging that the insured unlawfully used the surname of a deceased Olympic athlete in its advertising and marketing of running shoes and apparel. Further, this appeal presents the very question regarding the existence of an insurer's right to recoup defense costs paid under a unilateral reservation of rights that this

Although Vibram FiveFingers, LLC is not a defendant in this action, it is a plaintiff in counterclaim and a party to the instant appeal. For simplicity of presentation, Vibram FiveFingers, LLC is referred to herein as a "Defendant-Appellant."

Court specifically recognized in *Metropolitan Life Ins. Co.*v. Cotter, 464 Mass. 623, 642 n. 21 (2013), remains

unaddressed. These unanswered questions are of significant

public interest given the wide use of commercial general

liability insurance throughout the Commonwealth.

II. STATEMENT OF PRIOR PROCEEDINGS

This action arises out of a coverage dispute concerning certain commercial general liability policies (the "Policies") issued to Vibram by the Insurers. The Insurers brought an action in the Suffolk Superior Court seeking a declaratory judgment that they did not owe a duty to defend or indemnify Vibram in a pending underlying action (the "Underlying Action"), brought against Vibram in the United States District Court for the Western District of Washington. The Insurers also sought to recoup the defense costs they reimbursed to Vibram under express reservations of rights to seek such recoupment. Vibram counterclaimed for a declaration that the claims against it in the Underlying Action were covered under the Policies and the Insurers were liable to reimburse Vibram for its defense and indemnity costs in the Underlying Action.

The parties filed cross-motions for partial summary judgment on the issue of the Insurers' duty to defend. By an Order issued on August 17, 2016, and amended on October

13, 2016 (the "October 13, 2016 Order"), 2 the Superior Court (Kaplan, J) held that the Policies did not provide defense coverage for the claims asserted against Vibram in the Underlying Action, and accordingly, the Insurers had no duty to defend or indemnify Vibram in the Underlying Action.

In light of the Superior Court's order that a duty to defend was not owed under the Policies, the Insurers filed a second motion for partial summary judgment seeking recoupment of the defense costs paid to Vibram under a unilateral reservation of rights. Vibram opposed the Insurers' motion and filed a second cross-motion for partial summary judgment seeking reimbursement of unpaid defense costs incurred before the Superior Court issued its initial decision on the coverage issues on August 17, 2016.

By an Order dated March 20, 2017 (the "March 20, 2017 Order"), the Superior Court (Kaplan, J) denied the Insurers' second motion for partial summary judgment to the extent it sought to establish a right to recoup defense costs previously advanced, and denied Vibram's second cross-motion for partial summary judgment to the extent it

A copy of the Superior Court's October 13, 2016 Order is appended hereto as Exhibit "A."

 $^{^{\}rm 3}$ A copy of the Superior Court's March 20, 2017 Order is appended hereto as Exhibit "B."

sought to recover any additional unpaid defense costs from the Insurers. On March 23, 2017, the Superior Court entered its final judgment.

Vibram has timely appealed from the March 23, 2017

Judgment and the Insurers have timely cross-appealed. The record has been compiled and transmitted. The appeal has been docketed, but briefs in the Appeals Court have yet to be filed. On July 10, 2017, the parties filed a

Stipulation Regarding Party Designations with the Appeals Court, designating Vibram as the appellant, and Holyoke and Maryland as the appellees.

III. STATEMENT OF FACTS RELEVANT TO THE APPEAL

The plaintiffs in the Underlying Action alleged, inter alia, that they are the heirs of Abebe Bikila, a deceased marathon runner from Ethiopia who famously won the 1960 Olympic Marathon running barefoot. The Second Amended Complaint in the Underlying Action (the "Underlying Complaint") alleged that the plaintiffs owned the rights associated with the Bikila name, and that Vibram had a registered trademark for Bikila Footwear and has used the trademark to sell shoes and running wear, in particular, its minimalist "FiveFingers" line of running shoes. The Underlying Complaint expressly asserted claims for violation of (1) the Washington Personality Rights Act, (2)

the Washington Consumer Protection Act, (3) false designation and Federal unfair competition under section 43(a) of the Lanham Act, 15 U.S.C. sec. 1125(a), and (4) Washington common law unjust enrichment (collectively, the "Bikila claims"), and alleged facts that, Vibram contends, could support its coverage claims.

The Polices provided primary insurance coverage under which the Insurers agreed to "pay those sums that [Vibram] becomes legally obligated to pay as damages because of 'personal and advertising injury' to which this insurance applies." In pertinent part, "personal and advertising injury" is defined as: "e. Oral or written publication, in any manner, of material that violates a person's right of privacy," "f. The use of another's advertising idea in your 'advertisement,'" and "g. Infringing upon another's copyright, trade dress or slogan in your 'advertisement.'"

In addition, the Policies contain an exclusion, which provides in part, that "Personal and advertising injury" arising out of "the infringement of copyright, patent, trademark, trade secret or other intellectual property rights" is not covered, and which also contains specific exceptions to the exclusionary language.

The Policies also contain a "Supplementary Payments" provision, which states, "We will pay, with respect to any

claim we investigate or settle, or any 'suit' against an insured we defend: . . . All expenses we incur"

After the Underlying Action was filed, Vibram tendered the Bikila claims to the Insurers for defense and indemnification under the Policies. Based on their review of the allegations in the Underlying Complaint, the Insurers denied coverage under the Policies for the Underlying Action, and denied that they had a duty to defend or indemnify Vibram from the Bikila claims. Specifically, the Insurers contended that none of the definitions of "advertising injury" under clauses e, f or g applied to the allegations in the Underlying Action, and even if any of those definitions were met, coverage was barred by an exclusion in the Policies (the "Intellectual Property Exclusion") for claims asserting infringement of intellectual property rights.

Holyoke and Maryland each advised Vibram in writing that, while they were each reserving their conclusion that coverage was not triggered, they each agreed to fund Vibram's defense subject to a full reservation of the Insurers' rights to deny coverage and to recoup any defense costs they paid upon a judicial determination that a duty to defend was not owed.

Given the Insurers' reservation of rights, Vibram exercised its right to control its defense in the Underlying Action and to be defended by counsel of its choosing, K&L Gates.

As of August 17, 2016, the date of the Superior Court's Order on the coverage issue, Vibram had submitted to the Insurers defense cost invoices in the amount of \$1,272,212.57. And, as of that date, the Insurers had collectively reimbursed Vibram a total of \$667,901.71, comprising \$472,216.80 from Holyoke and \$195,684.91 from Maryland. The Insurers took the position that they would pay no further defense costs, whether such costs were incurred before or after the Court's ruling on the duty to defend.

IV. STATEMENT OF THE ISSUES OF LAW RAISED BY THE APPEAL

The following issues of law were raised and properly preserved in the Superior Court and are ripe for direct appellate review:

- 1. Whether the Insurers have a duty to defend Vibram in the Underlying Action under the "personal and advertising injury" coverage of their Policies.
- 2. If a duty to defend was not owed, whether the Insurers are entitled to recoupment of the sums paid for

the defense of Vibram in the Underlying Action subject to the Insurers' unilateral reservation of rights.

3. Even assuming a duty to defend was not owed under the Policies, whether Vibram is entitled to reimbursement of unpaid defense costs incurred up to August 17, 2016, the date of the Superior Court's order on the coverage issue.

V. ARGUMENT

A Coverage under the Policies

Vibram contends that the allegations in the Underlying Action trigger the Insurers' duty to defend Vibram, because they state a potential claim falling within the Policies' coverage grant for "personal and advertising injury" arising from any of three enumerated offenses: (1) publication of material that violates a person's "right of privacy"; (2) "use of another's advertising idea in your advertisement"; and (3) infringement of a "slogan". The Insurers contend that even if the coverage grant for a right of privacy violation were satisfied here, the claim would be barred from coverage because the claim falls within the Intellectual Property Exclusions in the Policies.

The Superior Court concluded that the Underlying Complaint did not allege a claim falling within the coverage grant for a right of privacy violation. The

Superior Court reasoned that the Underlying Complaint alleged a claim for infringement of a right of publicity that is distinct from a right of privacy under

Massachusetts substantive law. Vibram contends on appeal, among other arguments, that while the parties agree that

Massachusetts insurance law governs the coverage issues, the relevant inquiry was whether the state law governing the Underlying Action (i.e., Washington state law) recognizes a violation of a right of privacy based on the allegations of the Underlying Complaint.

The Superior Court also concluded that the Underlying Complaint failed to assert a claim falling within the coverage grant for a claim under clause f, alleging that Vibram used an "advertising idea" of the Bikila plaintiffs. The Superior Court reasoned that while Vibram's use of the Bikila name to market running shoes and apparel may constitute an advertising idea, the Bikila plaintiffs failed to allege that they had used the Bikila name or Abebe Bikila as an advertising idea with respect to the same particular products. Vibram contends, in part, that allegations in the Underlying Complaint regarding the Bikila plaintiffs' alleged commercial uses of the name demonstrate that the Underlying Complaint alleged that Vibram used their "advertising idea".

Additionally, the Superior Court concluded that the Underlying Complaint did not allege a claim falling within the coverage grant under clause g, alleging that Vibram infringed on a "slogan" of the Bikila plaintiffs. Again, the Superior Court reasoned that Vibram's use of the Bikila name to market running shoes might be considered a "catchword" sufficient to constitute a slogan. However, according to the trial court, there was no allegation that the Bikila plaintiffs' use of the Bikila name to evoke the memory of Abebe Bikila would constitute a catchword or slogan.

B. Recoupment of Defense Costs Paid to Vibram and Reimbursement of Unpaid Defense Costs

The Supreme Judicial Court has yet to address whether an insurer can recoup defense costs paid under a reservation of rights, where a judicial determination has been made that the insurer never owed a duty to defend its insured and where the policies at issue do not expressly grant that right. See *Cotter*, 464 Mass. at 642 n. 21 (2013).

Nevertheless, the Insurers contend that they are entitled to recoupment of defense costs that were never owed under the Policies and paid under reservations of rights based on principles of unjust enrichment under

Massachusetts law. See id. citing Restatement (Third) of Restitution & Unjust Enrichment, § 35(1). The Insurers contend that Vibram's retention of defense costs that it was not entitled to receive under the Policies would be unjust and contrary to the parties' reasonable expectations. The Insurers also contend that denying recoupment undermines Massachusetts well-established policy of encouraging insurers to file declaratory judgment actions to resolve coverage disputes.

Vibram contends that there is no language in the Policies that expressly grants the Insurers a right of recoupment. Vibram argues that having failed to include such language in the Policies, the Insurers may not now ask the Court to rewrite the Policies retroactively for them. In addition, Vibram argues that the Massachusetts law of unjust enrichment is not applicable on the facts of this case, and that the Insurers' position would work a substantial reallocation of the risk transferred under their Policies. Vibram relies, in part, on a decision of the United States District Court for the District of Massachusetts, Welch Foods Inc. v. Nat'l Union Fire Ins. Co., 2011 U.S. Dist. LEXIS 17134 (D.Mass. Feb. 9, 2011), which adopted the approach of the Supreme Court of

Pennsylvania in American & Foreign Ins. Co. v. Jerry's Sport Ctr., 2 A.3d 526 (2010).

Vibram further contends that under this Court's decision in Metropolitan Property & Casualty Insurance Company v. Morrison, 460 Mass. 352, 359 (2011), the Insurers' duty to defend did not cease until the trial court's ruling on that issue was entered, such that the Insurers are obligated to reimburse unpaid past defense costs incurred through August 16, 2016.

The Superior Court (Kaplan, J) sided with Vibram on the recoupment issue and held that the Insurers were not entitled to recoupment of defense costs advanced to Vibram with respect to the Underlying Action. See March 20, 2017 Order. The Superior Court sided with the Insurers on the past defense costs issue and held that Vibram was not entitled to payment of any additional past defense costs. Id.

VI. STATEMENT OF REASONS WHY DIRECT APPELLATE REVIEW IS APPROPRIATE

The Insurers and Vibram agree that direct appellate review is appropriate here because the appeal presents questions of first impression that have not been addressed by any appellate court in the Commonwealth. Additionally, the questions presented are of significant public interest

given the wide-spread use of commercial general liability policies throughout the Commonwealth. The appeal, therefore, comfortably falls within two of the three categories of cases that are deemed appropriate for direct appellate review under Mass. R. A. P. 11(a). See Mass. R. A. P. 11(a) (1) and (3).

First, the appeal presents "questions of first impression" and "novel questions of law." Mass. R. A. P. 11(a)(1). A central question presented by this appeal is whether an insurer may seek reimbursement for the costs of a defense undertaken pursuant to a unilateral reservation of rights after a judicial determination has been made that the insurer owed no duty to defend its insured. This Court has yet to address this question. See Cotter, 464 Mass. at 642 n.21. No reported Massachusetts case since Cotter has addressed the issue. And, as there are conflicting authorities in other jurisdictions, judicial guidance on the issue from this Court is imperative. In addition, as demonstrated by the October 13, 2016 Order, there is no Massachusetts appellate decision directly addressing the "personal and advertising injury" coverage issues raised in the Superior Court by the Insurers and Vibram.

Second, the appeal presents "questions of such public interest that justice requires determination by the full

Supreme Judicial Court." Mass. R. A. P. 11(a)(3). This Court's decision will have a significant impact on the rights and obligations of insurers and their insureds. In particular, the issue of which state's substantive liability law should be consulted in determining whether the allegations of a complaint trigger a duty to defend (the state whose law controls policy interpretation versus the law governing the underlying action) impacts a wide range of policies and claims.

Questions regarding the scope of "personal and advertising injury" coverage (a common form of coverage in liability insurance policies) also have broad relevance to insurance coverage disputes in Massachusetts. For example, the issues of (1) an insurer's right to recoupment of defense costs following a judicial determination of noncoverage and (2) an insured's right to reimbursement of defense costs incurred up to the date of such determination, impact a wide range of insurance policies, including homeowners policies and commercial general liability policies, issued to numerous individuals and entities across the Commonwealth.

VII. CONCLUSION

For the foregoing reasons, defendants-appellants Vibram USA, Inc., and Vibram FiveFingers, LLC, and

plaintiffs-appellees Holyoke and Maryland, respectfully jointly request that this Court accept direct appellate review of this appeal.

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AS SUCCESSOR TO HOLYOKE MUTUAL
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CERTIFICATE OF SERVICE

I Michael D. Riseberg hereby certify that a true and accurate copy of the foregoing document was served by mail on July 11, 2017 upon:

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COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, 38.

Superior Court Department
Business Litigation Session
Civil Action No. 1584CV02321 - BLS /

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM and MARYLAND CASUALTY COMPANY,

Plaintiffs.

VIBRAM USA, INC.,

Defendant.

VIBRAM USA, INC. and VIBRAM FIVEFINGERS, LLC.

Plaintiffs in Counterclaim,

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM and MARYLAND CASUALTY COMPANY,

Counterclaim Defendants.

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JOINT MOTION FOR ENTRY OF AMENDED ORDER AND BRIEFING SCHEDULE

Following the status conference held on September 28, 2016, Plaintiffs and Counterclaim

Defendants Holyoke Mutual Insurance Company in Salem and Maryland Casualty Company

(S(collectively, the "Plaintiff-Insurers"), jointly with Defendant and Plaintiff in Counterclaim

Ulbram USA, Inc., and Plaintiff in Counterclaim Vibram FiveFingers, LLC (collectively,

"Vibram") ("Plaintiff-Insurers" and "Vibram" are collectively referred to herein as the "parties").

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COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, ss.

SUPERIOR COURT CIVIL ACTION NO. 15-2321 BLS1

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM and MARYLAND CASUALTY COMPANY

VS.

VIBRAM USA, INC.

AMENDED MEMORANDUM OF DECISION AND ORDER ON CROSS-MOTIONS FOR SUMMARY JUDGMENT AND PARTIAL SUMMARY JUDGMENT

INTRODUCTION

This action arises out of a coverage dispute between the plaintiff insurance companies, Holyoke Mutual Insurance Company in Salem (Holyoke) and Maryland Casualty Company (Maryland) (individually, an Insurer and collectively, the Insurers) and the defendant, Vibram USA, Inc. Each of the Insurers issued commercial general liability policies (the Policies) to Vibram during the relevant period that provided, among other things, coverage for losses from "advertising injury liability." Each of the Policies also provided that the Insurer has the duty to defend an insured from any suit seeking damages for losses covered by the policy, but not for losses to which the insurance does not apply. Vibram is a defendant in an action pending in the United States District Court for the Western District of Washington at Tacoma captioned: *Tefere Abebe Bikila, and others, v. Vibram*, case no. 3:15-cv-05082-RBL (the Underlying Action).

Vibram FiveFingers, LLC, an affiliate of Vibram, is an insured under the Maryland policies. For purposes of the pending motions it is not necessary to distinguish between these two entitites, and they will be collectively referred to as "Vibram".

Vibram tendered the defense of the Underlying Action to the Insurers. They denied coverage and brought this declaratory judgment action seeking a declaration that the claims asserted against Vibram in the Underlying Action are not covered under the Policies; Vibram counterclaimed for a declaration that they are. The case is now before the court on the Insurers' motion for summary judgment declaring that the claims are not covered, and Vibram's cross-motion for partial summary judgment declaring that the Insurers have a duty to defend Vibram in the Underlying Action. For the reasons that follow, the Insurers' motion is ALLOWED and Vibram's motion is DENIED.

BACKGROUND

The parties agree that the court need not address the Policy periods of the six policies at issue, or any issues of primary and secondary coverage between the Insurers, to resolve the pending motions; nor are the monetary limits of coverage for indemnity or defense costs at issue. They also agree that the interpretation of the Policies is governed by Massachusetts law. Finally, the Insurers have filed a joint motion for summary judgment and the relevant language of the Policies may be considered identical for the purposes of these motions.

The Policies

Each of the Policies provides coverage for "sums that the insured becomes legally obligated to pay as damages because of 'personal and advertising injury." They also provide that the Insurers "have the right and duty to defend the insured against any 'suit' seeking those damages. However, [they] . . . have no duty to defend the insured against any 'suit' seeking damages for 'personal and advertising injury' to which this insurance does not apply."

As relevant to this case, 'personal and advertising injury' means:

"e. Oral or written publication, in any manner, of material that violates a person's right of privacy,

- f. The use of another's advertising idea in your 'advertisement,' or
- g. Infringing upon another's copyright, trade dress or slogan in your 'advertisement."

The Policies also include the following exclusion:

"This insurance does not apply to:

'Personal and advertising injury' arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. Under this exclusion, such other intellectual property rights do not include the use of another's advertising idea in your 'advertisement.' However, this exclusion does not apply to infringement, in your 'advertisement', of copyright, trade dress or slogan."

The Underlying Action

The Second Amended Complaint in the Underlying Action, which is presently the operative complaint (the complaint), alleges that the plaintiffs are, generally stated, the living heirs of Abebe Bikila. It goes on to allege how Abebe Bikila came to win the 1960 Olympic marathon running barefoot, then won the race again in the 1964 Olympics, and died in 1973 as the result of an automobile accident. The Complaint alleges that Vibram applied for and received a registered trademark for Bikila Footwear and has used this trademark to sell shoes and running wear; in particular, its "minimalist FiveFingers . . . line of running shoes."

According to the complaint, the plaintiff heirs of Abebe Bikila, referred to as the Bakila Family, own the "intellectual property" associated with the Bikila name and, since Abebe's

² For simplicity, the court will refer to this coverage simply as "advertising injury."

death, have "sought to protect Abebe Bikila's personality rights and intellectual property from any unauthorized use for commercial purposes. Additionally, by their commercial uses, sponsorship and promotion of historical and educational events, and multimedia events emphasizing the cultural and athletic legacy of Abebe Bikeila, the Bikila Family has intentionally associated their family name with Abebe Bikila's barefoot dedication to succeed under any circumstances."

The complaint also identifies the instances in which the Bikila Family have used or authorized the use of the name Abebe Bikila. From 1980 to 1990, the Bikila Family operated a sporting goods store in Ethiopia named after Abebe Bikila. His son published the book, *Triumph and tragedy: A history of Abebe Bikila and his marathon career (1996)*. In 2007, Abebe Bikila was featured in a Japanese commercial with the permission of the family. (The product being promoted is not alleged.) In 2009, a movie that focused on the final years of Abebe Bikila's life was released. Since 2010, the Bikila Family have operated a website that provides information on the life and legacy of Abebe Bikila and the annual Abebe Bikila International Marathon in Addis Ababa, which the Bikila Family sponsors.

The complaint is pled in four counts. The first claim is for a violation of the Washington Personality Rights Act, RCW 63.60 et seq. Here, the Bikila Family avers that Abebe Bikila is a deceased personality within the meaning of the Act and they own his personality rights, which Vibram has infringed. The second claim asserts that Vibram engaged in an unfair or deceptive act or practice in violation of the Washington Consumer Protection Act, RCW §19.86.020. The third claim if for false designation and Federal unfair competition in violation of 15 U.S.C. § 1125(a). In essence, the Bakili Family avers that Vibram has sought to capitalize on the goodwill and recognition associated with the Bikila name, by falsing suggesting that the Bikila Family

endorsed or sponsored the association of Adebe Bikila's name with Vibram's running shoes and apparel. The fourth claim alleges that Vibram has been unjustly enriched by its unauthorized use of the name and should pay to the Bikila family profits earned through its commercial use.

DISCUSSION

The rules governing the interpretation of an insurance policy and the duty to defend an insured under Massachusetts law have been well established for many years and are not in dispute.

As a general rule, the policyholder bears the initial burden of proving coverage within the policy description of covered risks. *Markline Co. v. Travelers Ins.* Co., 384 Mass. 139, 140(1981). Once basic risk coverage is established, the burden shifts to the insurer to prove the applicability of any exclusion to coverage set forth outside of the insuring clause. See *Murray v. Continental Ins. Co.*, 313 Mass. 557, 563 (1943); *Ratner v. Canadian Universal Ins. Co.*, 359 Mass. 375, 381 (1971). The fact that [the insured] sought declaratory relief does not alter the defendant's burden of proof. *Stop & Shop, Inc. v. Ganem*, 347 Mass. 697, 703 (1964). *Ranger Ins. Co. v. Air-Speed, Inc.*, 9 Mass.App.Ct. 403, 406 n. 9 (1980).

"It is settled in this jurisdiction, and generally elsewhere, that the question of the initial duty of a liability insurer to defend third-party actions against the insured is decided by matching the third-party complaint with the policy provisions...." Sterilite Corp. v. Continental Cas. Co., 17 Mass.App.Ct. 316, 318 (1983). If the allegations of that complaint can be reasonably read to "state or adumbrate³ a claim covered by the policy terms," the insurer is obligated to defend. Ibid. See Continental Cas. Co. v. Gilbane Bldg. Co., 391 Mass. 143, 146-147 (1984); Terrio v. McDonough, 16 Mass.App.Ct. 163, 166, (1983). In order to give rise to the duty to defend, the underlying complaint need show only a possibility of coverage. Sterilite Corp. v. Continental Cas. Co., supra 17 Mass.App.Ct. at 319.

Interpretation of the language of [an insurance policy] presents a question of law. Save-Mor Supermarkets, Inc. v. Skelly Detective Serv., Inc., 359 Mass. 221, 226, (1971). In this interpretation, we are guided by three fundamental principles: (1) an insurance contract, like other contracts, is to be construed according to the fair and

³ In *Billings v. Commerce Ins. Co.*, 458 Mass. 194, 200 n. 10 (2010), the Supreme Judicial Court explained that, as used here, the infrequently employed word "adumbrate" may be understood to mean "roughly sketch."

reasonable meaning of its words, Cody v. Connecticut Gen. Life Ins. Co., 387 Mass. 142, 146 (1982); (2) exclusionary clauses must be strictly construed against the insurer so as not to defeat any intended coverage or diminish the protection purchased by the insured, Vappi & Co. v. Aetna Cas. & Sur. Co., 348 Mass. 427, 431-432 (1965); Bates v. John Hancock Mut. Life Ins. Co., 6 Mass.App.Ct. 823 (1978); Sterilite Corp. v. Continental Cas. Co., 17 Mass.App.Ct. at 321 n. 10; and (3) doubts created by any ambiguous words or provisions are to be resolved against the insurer, Cody v. Connecticut Gen. Life Ins. Co., supra 387 Mass. at 146; Bates v. John Hancock Mut. Life Ins. Co., supra.

Camp Dresser & McKee, Inc. v. Home Ins. Co., 30 Mass. app. Ct. 318, 321-324 (1991). More specifically, with respect to the issue of putatively ambiguous policy terms, an ambiguity exists when "there are two rational interpretations of policy language." See Hazen Paper Co. v. United States Fidelity & Guaranty Co., 407 Mass. 689, 700 (1990). In that case, the court should "consider what an objectively reasonable insured, reading the relevant policy language, would expect to be covered." Id.

In determining whether the allegations in a complaint make out a claim within the coverage of a policy, "the process is not one of looking at the legal theory enunciated by the pleader but of envisaging what kinds of losses may be proved as lying with the range of the allegations of the complaint, and then seeing whether any such loss fits the expectation of protective insurance reasonably generated by the terms of the policy." *Billings v. Commerce Ins. Co.*, 458 Mass. at 201. Internal citations and quotations omitted.)

With these principles in mind, the court turns to the policy language and the factual allegations of the Underlying Action. Vibram argues that a duty to defend arises under the clauses e, f, and g of the definition of 'advertising injury' quoted above from the Policies. The defendant argues that none of these definitions apply to the allegations of the Underlying Action, and even if a 'right to privacy' applied to claims asserted in the Underlying Action, coverage would still be absent because of the exclusion for claims asserting infringement of intellectual

property rights. The court will consider each of the definitions in the order that they appear in the policy and also the exclusion.

Oral or written publication, in any manner, of material that violates a person's right of privacy.

The term "privacy" is not defined in the Policies. Vibram directs the court to a number of coverage cases in which the question raised was whether commercial insurance policies which provided coverage for advertising injury arising out of a violation of a right of privacy covered claims brought under the Telephone Consumer Protection Act, 47 U.S.C., § 227 (2000) (TCPA) for sending unsolicited faxes to potential customers for business purposes. See *Terra Nova Ins. Co. v. Fray-Witzer*, 449 Mass. 406, 416-417 n. 11 and n. 12 (2007). In *Terra Nova*, the Supreme Judicial Court (SJC) reflected on the number of decisions that had been issued by diverse courts on both sides of this coverage question. It then held that continued use of a policy term that had been the subject of so much litigation with inconsistent holdings would cause "even the most sophisticated and informed insurance consumer [to be] confused as to the boundaries of advertising injury coverage in light of the deep difference of opinion symbolized in these cases." *Id.* The fact that the application of the "right of privacy" to the fax cases was subject to confusion and contest does not mean that this term is ambiguous when applied to all claims, and, in particular, a claim for unauthorized use of a celebrity's name to promote a product.

For its part, Vibram did not direct the court to any case in which the unauthorized use of a person's name for commercial purposes was held to constitute a violation of a right of privacy.⁴

⁴ The two cases cited by Vibram in support of this contention do not appear to be on point. See *Bogart LLC v. Ashley Furniture Ind. Inc.*, 2012 WL 3745833 (M.D. Ga. Aug. 28, 2012) (which actually specifically recognizes the difference between publicity and privacy rights, citing *Allison v. Vintage Sports Plaques*, 136 F.3d 1443, 1446-1447 (11th Cir. 1998)) and *Brewer. v. Hustler Magazine, Inc.*, 749 F.2d 527 (9th Cir. 1984).

In Zacchini v. Scripps-Howard Broadcasting Co., 433 U.S. 562, 573 (1977), the United States Supreme Court explained that Dean Prosser had included the "right of publicity" as one of the "four distinct branches" of privacy law. The Supreme Court then, however, went on to explain that violations of the common law 'right of publicity' were claims for infringement of a proprietary interest "closely analogous to the goals of patent and copyright law," very different from torts arising out of a violation of personal rights. *Id*.

More fundamentally, for purposes of interpreting these insurance policies, in Massachusetts the right of privacy and the right to publicity have been governed by two distinct statutes for many years. In 1973, the Legislature enacted G.L. c. 214, § 3A which is entitled "Unauthorized Use of Name, Portrait or Picture of Person" and provides a civil action for using, among other things, a person's name "for advertising purposes or for the purposes of trade without his written consent." In *Tropeano v. Atlantic Monthly Co.*, 379 Mass. 745 (1980), the SJC expressly stated that this statute must be construed to protect rights distinct from those protected by G.L. c. 214, § 1B, which is entitled "Right of Privacy" and provides a claim for "unreasonably, substantial or serious interference with [a person's] privacy," so that G.L. c. 214, § 3A, will "perform its intended function without overlapping the function of the Right of Privacy statute." *Id.* at 748. In consequence, the difference between the 'Right of Privacy' and the 'Right of Publicity' and what each of these rights protects has been well defined in Massachusetts for several decades.

In *Terra Nova*, the SJC stated that the first step in construing a term in an insurance policy "is to discern the plain and ordinary meaning of the phrase." 449 Mass. at 416. It then went on to quote Webster's Third New Int'l Dictionary 1804 (2002) definition of privacy: "the quality or state of being apart from the company or observation of others: seclusion[;] isolation,

seclusion, or freedom from unauthorized oversight or observation." *Id.* It also quoted from Black's Law Dictionary 1350 (8th ed. 2004) which defines "right of privacy" as "[t]he right to personal autonomy," or the right of a person and the person's property to be free from unwarranted public scrutiny or exposure." *Id.* at n. 11. Neither of those definitions suggests that the common meaning of the term "right of privacy" includes the unauthorized, commercial use of a famous person's name.

The Underlying Action never mentions the phrase "right of privacy" or anything akin to it. That is not in itself determinative, as the coverage issue is resolved by looking for "what kinds of losses may be proved as lying with the range of the allegations of the complaint." *Billings v. Commerce Ins. Co.*, 458 Mass. at 201. Such a search, however, demonstrates that the kinds of losses alleged in the Underlying Action are losses like those arising out of an infringement of the right of publicity expressly defined by statute in Massachusetts and analogous to the goals of copyright and trademark law, as described by the United States Supreme Court in *Zacchini*. These losses are not like those personal injuries that arise from a violation of the right of privacy, as defined in dictionaries. Vibram's suggestion that the right to publicity is synonymous with the term 'privacy' as used in the Policies is not a reasonable interpretation.

⁵ The Washington Personality Rights Act states: "Every individual or personality has a property right in the use of his or her name, . . ." RCW § 63.60.010. This, at least, suggests that Washington views the unauthorized use of someone else's name for commercial purposes as something different than the violation of a right of privacy, i.e., in a manner consistent with Massachusetts law. In any event, Vibram has its principal place of business in Massachusetts, the policies were issued here, and Massachusetts law determines if the facts alleged in the Underlying Action, regardless of how the claims may be labeled, suggest a claim covered by the Policies. See *Terra Nova*, 449 Mass. at 411-412.

Exclusion for "Personal and advertising injury' arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights."

Although Vibram did not direct the court to any case in which a right to publicity was found to give rise to coverage as an "advertising injury" under a commercial insurance policy, the Insurers did. In *Aroa Marketing, Inc., v. Harford Ins. Co. of the Midwest*, 198 Cal. App. 4th 781 (2011), a model filed suit against Aroa for the unauthorized use of her image and likeness to sell products without compensating her. Aroa tendered the defense of the claim to its insurer, which denied coverage, and Aroa then filed this coverage action. The appellate court (California Second District, Division 4) found that the California Supreme Court had held that the right of publicity had historically been grouped by Dean Prosser under the "privacy rubric" and "no California case [had rejected] this historical grouping." Id. at 787. It therefore held that the underlying publicity claim was within the "privacy" prong of advertising injury under California law and therefore within the definition of a covered claim under a policy that provided insurance for violations of the right of privacy.

The *Aroa* court, however, went on to hold that a claim for violation of a right of publicity fell within the exclusion for losses "arising out of the infringement of . . . intellectual property rights," the same exclusion found in the Policies at issue in this case. The court explained that: "[T]he right of publicity is an intellectual property right, and right of publicity claims would be excluded from coverage under the intellectual property rights exclusion." Id. at 788. In a more recent 2015 case, *Alterra Excess and Surplus Ins. Co., v. Snyder*, 234 Cal. App. 4th 1390 (2015), in which the underlying action is quite similar to that brought by the Bikila Family, another California Court of Appeals (First District, Division 2) found that the intellectual property exclusion applied to claims asserting the unauthorized use of Buckminster Fuller's name to promote the sale of a series of products. The holdings of these California cases is consistent with

a number of Federal cases which have also held that right to use someone's name for commercial purposes is an intellectual property right. See, e.g., ETW Corp. v. Jireh Publ'g, Inc., 332 AF.3d 915, 928 (6th Cir. 2003) (stating that "It] the right of publicity is an intellectual property right of recent origin which has been defined as the inherent right of every human being to control the commercial use of his or identity"); Allison v. Vintage Sports Plaques, 136 F.3d 1443, 1448 (11th Cir.1998) (concluding that the common law right of publicity is an intellectual property right for purposes of the first-sale doctrine); Ji v. Bose Corp., 578 F. Supp. 2d 217, 221 (D. Mass. 2008) (holding that while the First Circuit has not addressed the issue, authority from other circuits classifying the right to publicity has an intellectual property right is persuasive). Legal treatises also classify the right to publicity as an intellectual property right. See, e.g., J. Thomas McCarthy, Melville B. Nimmer & the Rights of Publicity: A Tribute, 34 U.C.L.A. L.Rev. 1703, 1712 (1987) (stating that the right of publicity has "matured into a distinctive legal category occupying an important place in the law of intellectual property"); Black's Law Dictionary 813 (7th ed.1999) (defining intellectual property as follows: "A category of intangible rights protecting commercially valuable products of the human intellect. The category comprises primarily trademark, copyright, and patent rights, but also includes trade-secret rights, publicity rights, moral rights, and rights against unfair competition.").

In consequence, while this court finds that, under Massachusetts law, an insurance policy providing coverage for violation of the right to privacy does not cover claims for unauthorized commercial use of a person's name, even if it did, the policy exclusion eliminating coverage for infringement of intellectual property rights would apply.⁶

⁶ This exclusion has exceptions for claims arising out of the use of another's advertising idea or slogan. See, *supra* at 3. Therefore, if coverage applies under either of these definitions of advertising industry, the Insurers are not entitled to this exclusion.

The use of another's advertising idea in your 'advertisement.'

Vibram argues that the "Underlying Complaint is . . . reasonably interpreted as alleging . . . that Vibram used the name Bikila as an 'adversiting idea,' to 'associate Vibram's commercial footwear with Abebe Bikila's legendary barefoot Olympic feats.' . . . Vibram's use . . . is connected with products associated with running." The Insurers, however, do not argue that Vibram has not used Bikila's name as an advertising idea to promote Vibram's FiveFinger line of minimalist running gear. Indeed, it is clear that this is exactly what Vibram has done, attempting to associate its line of running shoes with Bikila's feat of winning the marathon without footwear. Indeed, all four counts of the Underlying Action are predicated on the Bikila Family's allegation that Vibram employed this advertising idea to sell its products without its authorization and without paying for the right to use the late Abebe Bikila's personality rights, which the Family now owns.

However, in order for the claims asserted in the Underlying Action to give rise to the Insurers' duty to defend Vibram, the Underlying Action must be read to assert that Vibram was using the *Bikila Family's* advertising idea. Again, there is no specific allegation in the underlying action that the Bikila Family used their family name or 'Abebe Bikila' as an advertising idea. The court further notes that Vibram had not directed the court to any case in which a court has held that when a famous person uses her or his name to sponsor something, that person is using his/her own name as an advertising idea. Nonetheless, the court will examine the allegations of the Underlying Complaint to determine if it can be said to assert a claim for misuse of the *Bikila Family's* advertising idea.

Vibram contends that a single word can be an 'advertising idea.' Again, the Insurers do not dispute that either. Rather, they point out that all but one of the cases cited by Vibram involve trademarks, and the hallmark of trademarks is that they identify a name with particular products or services. Indeed, the case that Vibram primarily relies upon, State Auto Property and Casualty Ins. Co., v. Travelers Indemnity Co. of America, 343 F.3d 249 (4th Cir. 2010) (the Nissan case), makes just this point. In the Nissan case, Nissan Motor Company filed suit against Nissan Computer Company (NCC) for wrongful utilization of the NISSAN trademark. That case spawned coverage litigation between two of NCC's insurers. The Fourth Circuit identified one of the coverage issues raised by this case as follows: "if Travelers is to be obliged to defend NCC, the NISSAN trademark must qualify as an advertising idea "Id. at 257. It then explained that "a trademark plays an important role in advertising a company's products. Thus, at the very least, a trademark has the potential to be an advertising idea." Id. The court went on to hold that: "In this situation, we have a quintessential example of a trademark functioning to advertise a company's products. The NISSAN mark promotes Nissan's vehicles to the public . . . [as alleged in the underlying action] the mark has become instantly recognizable throughout the United States and the world as a symbol of high-quality automobiles. . . . Thus, the NISSAN trademark is an advertising idea." Id. at 258.7 It is apparent that the Fourth Circuit's holding is based on the NISSAN trademark being associated with a particular line of products, such that it serves as a means of advertising those products to potential customers.

⁷ The Insurers point out that some Circuits have held that a trademark is a label not an advertising idea. See, e.g., *Sports Supply Group, Inc. v. Columbia Cas. Co.*, 335 F.3d 453, 463 (5th Cir. 2003). As Massachusetts courts have not addressed this issue, were this the only basis for finding no coverage, the unsettled nature of the law would likely give rise to a duty to defend, as the possibility of coverage would exist.

The other case on which Vibram principally relies is similar, although it does not involve a trademarked name. *American Simmental Ass'n v. Coregis Ins. Co.*, 282 F.3d 582 (8th Cir. 2002) (the *Simmental* case) also involved a dispute over a duty to defend a claim in which the plaintiff asserted that the underlying claim against it constituted the "unauthorized taking of advertising ideas." In the underlying action, American Simmental Association (ASA) was sued by a group of breeders of purebred Simmental cattle for designating and advertising certain bulls as "fullblood" Simmentals, when they had been crossbred with other cattle and therefore were not purebred. The breeders claimed that they used the term 'fullblood' to promote their purebred cattle and ASA had misappropriated the term. The Eighth Circuit held that "under a plain and ordinary meaning analysis, [the breeders] alleged an 'unauthorized taking' of [the breeders' 'advertising idea,' which 'infringed' upon [the breeders] use of the term 'fullblood' and caused injury." Id. at 587. Here, the term 'fullblood' was, for purposes of the duty to defend, an advertising idea promoting a particular product—purebred or "fullblood" Simmental cattle.

Turning to the Underlying Action in the instant case, the Bikila Family does not assert that the name Adebe Bikila has become associated with any particular product or service. To the contrary the Family alleges that some years ago they had a sporting goods store in Ethiopia with the name Bikila on it, a son wrote a book about his father, a Japanese company was once permitted to use his name in an advertisement, and there is a marathon in Adis Ababa that has Abibi Bikila's name associated with it. The Bikila Family has not used Abebe Bikila's name to promote or commercialize any particular product or service. It is famous and commercially valuable because of Abebe Bikila's personal accomplishments, not because the Bikila Family

has used it as an advertising idea for a product or service.⁸ If, as alleged, the Bikila Family is the owner of this right, it is a classic 'personality right' or 'right of publicity' not an advertising idea. Vibram has not directed the court to any case where such a right has been found to be an advertising idea.⁹

Infringing upon another's copyright, trade dress or slogan in your advertisement.

As with 'advertising idea' the issue presented by this case is not whether Vibram is using the name 'Bikila' as a slogan, but rather whether the Bikila Family has alleged that it or Abebe Bikila used the name as a slogan such that the Underlying Action could be read as asserting a claim that falls within this definition of advertising injury. The parties spend much time focused on whether a single word can ever be a slogan. The court need not pause long on that dispute.

In Cincinnati Ins. Co. v. Zen Design Group, Ltd., 329 F.3d 546 (6th Cir. 2003), the Sixth Circuit was called upon to decide if the phrase "the Wearable Light" as used in association with small LED lights constituted a slogan. The court noted that, like the Policies in this case, the policy there at issue did not define 'slogan,' but found that the word was "easily defined by resort to common tools, such as dictionaries" and, therefore, was not ambiguous. Id. at 556. It provided the following definition: "'a distinctive cry, phrase, or motto of any party, group manufacturer, or person; catchword or catch phrase.' Random House Unabridged Dictionary 1800 (2d ed. 1993)." It then held that the use of the phrase 'the wearable light' in an

⁸ "A barefoot dedication to succeed under any circumstances," is a personality trait—Abebe Bikila's heritage—not a product or service.

⁹ Compare 1-2 Gilson on Trademearks § 2.03 (2015) ("A celebrity's name or likeness may itself be a trademark, if it is used by the celebrity to identify the source of products or services and to distinguish them from those of others.")

advertisement that depicted a picture of the light and the trademarked name "can easily be construed as a catchword or catch phrase used by the manufacturer to promote its product Relying on other common definitions of slogan, 'the Wearable Light,' as used in the . . . advertisement also can be considered a brief attention getting phrase used in advertising or promotion." *Id.* at 556-557 (internal quotations and citations omitted).

Similarly, in *Hugo Boss Fashions, Inc. v. Federal Ins. Co.*, 252 F.3d 608 (2nd Cir. 2001) (the *Boss* case), the Second Circuit was called upon to determine the meaning of the term "trademarked slogan," which was not defined in the insurance policy that was the subject of that coverage litigation. It found that this term was not ambiguous and was not a slogan. It explained the difference between a product name and a slogan used to promote the product: "we interpret the carve-out for 'trademarked slogans' as applying only to words or phrases used to *promote* particular products or product lines. 'BOSS', the house name itself, does not qualify as such a word or phrase." *Id.* at 620. Arguably, Vibram might be using Bikila as a slogan to promote its minimalist line of running shoes and apparel, but the Bikila Family did not use it as a catch phrase to promote any product. The Bikila Family does not use Bikila as a slogan when it identifies the name with the memory and achievements of Adebe Bikila. There is no allegation in the Underlying Action that can be read to suggest that the Bikila Family was complaining that it suffered loss because Vibram used a slogan that the Bikila Family used to sell a line of products or services to promote Vibram's particular products. ¹⁰ Their claim is that Vibram used the name Bikila, which is valuable because of the personal achievements of Abebe Bikila, to

¹⁰ In the *Boss* case, the Second Circuit did find a duty to defend, although not a duty to indemnify. Its ruling was based on its finding that, prior to its decision in the *Boss* case, there was some uncertainty as to what "trademarked slogan" meant as used in the policy. The court does not find that this uncertainty would have applied to the facts of the instant case where there is no allegation that the Bikila Family associated the name Bikila with any particular product or service. Moreover, the *Boss* case was decided fifteen years ago.

promote the sale of running gear without authorization in violation of Abebe Bikila's right to publicity, which the Family now owns.

* * *

The court concludes that a reasonably informed person would not find that "any [loss alleged in the Underlying Action] fits the expectation of protective insurance reasonably generated by the terms of the policy." See *Billings v. Commerce Ins. Co.*, 458 Mass. at 201. Vibram believed that there was commercial value in associating the Bikila name with its minimalist FiveFinger running shoes. This is undoubtedly because many runners will be familiar with Abebe Bikila's accomplishments. Coverage might well exist under the Policies if some other commercial enterprise had previously had the idea of associating the Bikila name with its products, *i.e.*, used it as an advertising idea or advertising slogan, and filed the Underlying Action. Coverage does not exist for a claim brought by the Bikila Family that alleges that it still owns the rights to the commercial use of the Bikila name. Stated differently, the allegations in the Underlying Action are not "susceptible of an interpretation that states or roughly sketches a claim covered by the policy terms." *Id.* at 200.

ORDER

For the foregoing reasons, the plaintiffs' motion for summary judgment is ALLOWED and the defendant's motion for summary judgment is DENIED. In consequence, the court orders that the counterclaims are dismissed and declares that the plaintiffs do not have a duty to defend the defendant in the Underlying Action or indemnify it for any loss sustained in respect thereto. The sole issue remaining for decision is whether the plaintiffs are entitled to reimbursement of the costs previously incurred in the defense of defendant in the Underlying Action. The parties shall confer and propose a schedule for the resolution of this issue.

MH Karlan Mitchell H. Kaplan

Justice of the Superior Court

Dated: October 13, 2016



Holify

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, ss.

SUPERIOR COURT CIVIL ACTION NO. 15-2321 BLS1

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM and MARYLAND CASUALTY COMPANY

vs.

VIBRAM USA, INC.

MEMORANDUM OF DECISION AND ORDER ON CROSS-MOTIONS FOR SUMMARY JUDGMENT ON RECOUPMENT AND RECOVERY OF DEFENSE COSTS

INTRODUCTION

This action arises out of a coverage dispute between the plaintiff insurance companies, Holyoke Mutual Insurance Company in Salem (Holyoke)¹ and Maryland Casualty Company (Maryland) (individually an Insurer, and collectively the Insurers), and the defendant, Vibram USA, Inc. (Vibram). Each of the insurers issued commercial general liability policies to Vibram (or its affiliate) (the Policies).² An action was filed against Vibram in the United States District Court for the Western District of Washington at Tacoma captioned: *Tefere Abebe Bikila, and others, v. Vibram*, case no. 3:15-cv-05082-RBL (the Underlying Action). Vibram asserted coverage under the Policies and tendered defense of the Underlying Action to the Insurers. The

¹ Holyoke has been replaced as a plaintiff in this action by its successor, Country Mutual Insurance Company. For consistency, the court will continue to refer to it as Holyoke in this Memorandum of Decision and Order.

² Holyoke issued policies to Vibram for several years, while Maryland issued policies to an affiliate of Vibram, Vibram Five Fingers, LLC. It is not necessary to distinguish between Vibram and its affiliate for the purposes of this motion, and the court will refer to them collectively as Vibram. Additionally, for purposes of this motion the relevant policy language in all of the policies is identical, and is it also unnecessary to distinguish among policy years. The court will therefore simply refer to the Holyoke and Maryland policies collectively as the Policies.

Insurers each sent a "reservation of rights" letter to Vibram in which they agreed to provide its defense to the claims asserted in the Underlying Action, but also maintained that coverage did not exist under the Policies and reserved their rights to bring a declaratory judgment action and seek reimbursement for defense costs advanced. The Insurers then filed this declaratory judgment action seeking a declaration that the claims asserted against Vibram in the Underlying Action are not covered under the Policies; Vibram counterclaimed for a declaration that they are. In a Memorandum of Decision and Order on Cross-Motions for Summary Judgment and Partial Summary Judgment originally issued on August 17, 2016 (the Decision), this court held that the Policies do not provide coverage for the claims asserted against Vibram in the Underlying Action and, accordingly, there is no duty to defend.

The case is now before the court on cross-motions for summary judgment addressing the issues of recoupment of defense costs advanced or, conversely, recovery of defense costs incurred before the court rendered the Decision but left unpaid—issues of first impression in Massachusetts. The Insurers contend that since the claims asserted in the Underlying Action were not insured under the Policies, they are entitled to recoup the defense costs that they previously paid Vibram. Vibram, in turn, maintains that it is entitled to recover defense costs already incurred, but still unpaid, as of the date the Decision issued. For the reasons that follow, each party's motion is allowed, in part, and denied, in part.

ADDITIONAL BACKGROUND

None of the facts necessary to resolve these cross-motions are in dispute.

Because the Insurers sent reservation of rights letters to Vibram, Vibram exercised its right to control its defense of the Underlying Action and retained its own counsel.³ Vibram's counsel kept the Insurers informed concerning the status of the Underlying Action and forwarded copies of pleadings to them. By August 17, 2016, the date the Decision issued, Vibram had sent the Insurers invoices for defense costs totaling \$1,272,212.57 and the Insurers had collectively reimbursed Vibram \$667,901.71—\$472,216.80 from Holyoke and \$195,684.91 from Maryland. Vibram last received a payment from the Insurers on July 18, 2016. Neither Insurer informed Vibram why it did not pay the full amount of the invoices.⁴

As relevant to the issues raised by the pending motions, the Policies provide that the Insurers "will pay those sums that the insured becomes legally obligated to pay as damages because of 'personal and advertising injury' to which this insurance applies. We have the right and duty to defend the insured against any 'suit' seeking those damages. However, we will have no duty to defend the insured against any 'suit' seeking damages for personal and advertising injury' to which this insurance does not apply." The Policies also state that the Insurers "will pay, with respect to any claim we investigate or settle, or any 'suit' against any insured we defend: . . . All expenses we incur"

DISCUSSION

Recoupment

In Metro. Life Ins. Co. v. Cotter, 464 Mass. 623 (2013) (Cotter), the Supreme Judicial Court (SJC) was called upon to decide if a disability insurer could recoup from its insured benefit

³ See, e.g., Northern Sec. Ins. Co. Inc. v. Another 1, 78 Mass. App. Ct. 691, 694-695 (2011).

⁴ At oral argument, counsel for the Insurers stated that invoices were still being processed for payment when the Decision issued, and the Insurers elected to withhold payment.

payments made under a reservation of rights after a court determined that the insured's benefits claim was not covered. In considering that claim for recoupment, the SJC noted that, with respect to liability policies:

We have not addressed whether an insurer may seek reimbursement for the costs of a defense undertaken pursuant to a unilateral reservation of rights. We note that other jurisdictions are split as to the validity of such claims. See *Perdue Farms, Inc. v. Travelers Cas. & Sur. Co.*, 448 F.3d 252, 258 (4th Cir.2006), and cases cited ("jurisdictions differ on the soundness of an insurer's right to reimbursement of defense costs").

Based on the theory that insurers are in the business of analyzing and allocating risk, and thus in a better position to do so, courts in some jurisdictions have declined to allow liability insurers to bring reimbursement claims for the costs of defense. See *Texas Ass'n of Counties County Gov't Risk Mgt. Pool v. Matagorda County*, 52 S.W.3d 128, 135 (Tex.2000). See, e.g., *Excess Underwriters at Lloyd's, London v. Frank's Casing Crew & Rental Tools, Inc.*, 246 S.W.3d 42, 45–47 (Tex.2008) ("imposing an extra-contractual reimbursement obligation places the insured in a highly untenable position"); *United States Fid. v. United States Sports Specialty*, 270 P.3d 464, 470–471 (Utah 2012) ("The right of an insurer to recover reimbursement from its insured distorts the allocation of risk unless it has been specifically bargained for").

Id. at 641 n.21. This question is squarely before this court in this case.

While acknowledging that there are divergent views on the right of recoupment in cases such as this, in which a court has entered a declaratory judgment that none of the claims alleged in the complaint are covered under the Policies, the Insurers maintain that the majority of jurisdictions permit recoupment. Perhaps, the most frequently cited case for the proposition that defense costs advanced under a reservation of rights may be recovered is *Buss v. Superior Court*, 16 Cal. 4th 35 (Cal.App. 1997). In a more recent decision, the California Supreme Court reaffirmed its holding in *Buss* with the following comments:

As Buss explained, the duty to defend, and the extent of that duty, are rooted in basic contract principles. The insured pays for, and can reasonably expect, a defense against third party claims that are potentially covered by its policy, but no more. Conversely, the insurer does not bargain to assume the cost of defense of claims that are not even potentially covered. To shift these costs to the insured does not upset the contractual

arrangement between the parties. Thus, where the insurer, acting under a reservation of rights, has prophylactically financed the defense of claims as to which it owed no duty of defense, it is entitled to restitution. Otherwise, the insured, who did not bargain for a defense of noncovered claims, would receive a windfall and would be unjustly enriched.

As Buss further noted, "[n]ot only is it good law that the insurer may seek reimbursement for defense costs as to the claims that are not even potentially covered, but it also makes good sense. Without a right of reimbursement, an insurer might be tempted to refuse to defend an action in any part — especially an action with many claims that are not even potentially covered and only a few that are — lest the insurer give, and the insured get, more than they agreed. With such a right, the insurer would not be so tempted, knowing that, if defense of the claims that are not even potentially covered should necessitate any additional costs, it would be able to seek reimbursement."

Though these comments were made in the context of "mixed" actions [including covered and uncovered claims], they apply equally here. An insurer facing unsettled law concerning its policies' potential coverage of the third party's claims should not be forced either to deny a defense outright, and risk a bad faith suit by the insured, or to provide a defense where it owes none without any recourse against the insured for costs thus expended. The insurer should be free, in an abundance of caution, to afford the insured a defense under a reservation of rights, with the understanding that reimbursement is available if it is later established, as a matter of law, that no duty to defend ever arose.

Scottsdale Ins. Co. v. MV Transportation, 36 Cal. 4th 643, 655 (Cal.App. 2005) (Internal citations and quotations omitted). In this case, the Insurers make the same arguments that the California Supreme Court describes in Scottsdale.

Vibram, however, points the court to a recent, unreported decision of the United States District Court in Massachusetts that reaches an opposite conclusion: *Welch Foods Inc. v. Nat'l Union Fire Ins. Co.*, No. 09-12087-RWZ 2011 WL 576600 (D. Mass. Feb. 9, 2011). In that case, like this one, the District Court found that claims in an underlying action were not covered by the liability policy and then addressed the insurer's claim for recoupment of defense costs paid under a reservation of rights. The District Court acknowledged the holding and reasoning of *Buss*, but rejected the California Supreme Court's opinion in favor of a more recent decision by the

Pennsylvania Supreme Court, American & Foreign Ins. Co. v. Jerry's Sport Center, Inc., 2 A.3d 526 (2010) (Jerry's), which appears to be the most frequently cited case by those courts that have recently held that under these circumstances there is no right to recoup.

In *Jerry's*, the Pennsylvania Supreme Court began with an exhaustive review of the competing lines of cases permitting and rejecting claims for recoupment of defense costs by liability insurers. *Id.* at 536-537. It then reflected on the very broad duty to defend (broader than the duty to indemnify) that exists under Pennsylvania, a duty that it describes in very much the same way as Massachusetts appellate courts describe the duty that liability carriers owe their insureds under Massachusetts law. See *Id.* at 540-541, compare Decision at 5-6. The Court then found that the answer to the question before it: is the insurer entitled to recover defense costs advanced before it obtained a declaratory judgment of no coverage, lay in the language of the policy itself:

We agree with Insured that whether a complaint raises a claim against an insured that is potentially covered is a question to be answered by the insurer in the first instance, upon receiving notice of the complaint by the insured. Although the question of whether the claim is covered (and therefore triggers the insurer's duty to defend) may be difficult, it is the insurer's duty to make that decision. See *Shoshone First Bank*, 2 P.3d at 516 (holding that the insurer must make the decision about whether there is a duty to defend). Insurers are in the business of making this decision. The insurer's duty to defend exists until the claim is confined to a recovery that the policy does not cover. . . . Where a claim potentially may become one which is within the scope of the policy, the insurance company's refusal to defend at the outset of the controversy is a decision it makes at its own peril. . . .

In some circumstances, an insurance company may face a difficult decision as to whether a claim falls, or potentially falls, within the scope of the insurance policy. However, it is a decision the insurer must make. If it believes there is no possibility of coverage, then it should deny its insured a defense because the insurer will never be liable for any settlement or judgment. See *Shoshone*, 2 P.3d at 510 (stating that where an insurer believes there is no coverage, it should deny a defense at the beginning). This would allow the insured to control its own defense without breaching its contractual obligation to be defended by the insurer. If, on the other hand, the insurer is uncertain about coverage, then it should provide a defense and seek declaratory judgment about coverage. *Id*.

In a declaratory judgment action to determine whether a claim is covered, the court resolves the question of coverage. . . . The court's role in the declaratory judgment action is to resolve the question of coverage to eliminate uncertainty. If the insurer is successful in the declaratory judgment action, it is relieved of the continuing obligation to defend. The court's resolution of the question of coverage does not, however, retroactively eliminate the insurer's duty to defend the insured during the period of uncertainty.

An examination of the insurance contract between the parties reveals that under the policy, [the Insurer] was obliged to pay damages because of bodily injury, and had the "right and duty to defend the insured against any 'suit' seeking those damages." The policy further provided that it had no duty to defend the insured against any suit seeking damages for bodily injury to which the insurance does not apply. Pursuant to the contractual language, therefore, [the Insurer] had the right and the duty to defend covered claims for bodily injury against Insured, and no duty to defend non-covered claims.

It was not immediately apparent whether the claim against Insured for bodily injury was or was not covered. It was immediately apparent, however, that the claim might potentially be covered. . . . Facing uncertainty about coverage, [the Insurer] appropriately activated its right and met its duty to defend under the policy when it was presented with a claim that may or may not have been covered. At the same time, [the Insurer] appropriately exercised its right to seek a declaration that it had no duty to defend.

The trial court's subsequent declaratory judgment determination that the claim was not covered relieved [the Insurer] of having to defend the case going forward, but did not somehow nullify its initial determination that the claim was potentially covered. . . .

We therefore reject [the Insurer's] attempt to define its duty to defend based on the outcome of the declaratory judgment action. The broad duty to defend that exists in Pennsylvania encourages insurance companies to construe their insurance contract broadly and to defend all actions where there is any potential coverage. . . .

Where the insurance contract is silent about the insurer's right to reimbursement of defense costs, permitting reimbursement for costs the insurer spent exercising its right and duty to defend potentially covered claims prior to a court's determination of coverage would be inconsistent with Pennsylvania law. It would amount to a retroactive erosion of the broad duty to defend in Pennsylvania by making the right and duty to defend contingent upon a court's determination that a complaint alleged covered claims, and would therefore narrow Pennsylvania's long-standing view that the duty to defend is broader than the duty to indemnify.

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Moreover, [the Insurer's] contractual obligation to pay for the defense arose as a consequence of the rules of contract interpretation. It is undisputed that the policy did not contain a provision providing for reimbursement of defense costs under any circumstances. Thus, the right [the Insurer] attempts to assert in this case, the right to reimbursement, is not a right to which it is entitled based on the policy

Id. at 541-544.

This court, like the District Court in Welch, finds that the Pennsylvania Supreme Court's decision in Jerry's comports with Massachusetts law. In Massachusetts, the insurer's duty to defend arises when the underlying complaint "show[s] only a possibility that the liability claim falls within the insurance coverage. There is no requirement that the facts alleged in the complaint specifically and unequivocally make out a claim within the coverage." Sterilite Corp. v. Continental Cas. Co., 17 Mass. App. Ct. 316, 319 (1983). Even in cases in which the insurer may believe that coverage is unlikely under the terms of the policy, it has financial incentives to provide a defense. If it is determined in a separate action brought by the insured (or the insurer) that coverage existed, the insurer will be responsible for paying the insured's costs of establishing a right to a defense, even if the denial of coverage was made in good faith. See Hanover Ins. Co. v. Golden, 436 Mass. 584, 588 (Mass. 2002). Of course, a bad faith refusal to provide a defense could constitute a violation of chapter 93A and expose the insurer to multiple damages. See Boston Symphony Orchestra, Inc. v. Commercial Union Ins. Co., 406 Mass. 7 (Mass. 1989) and Boyle v. Zurich American Ins. Co., 472 Mass. 649, 661 (2015). In consequence, when in doubt, an insurer has an economically sound and self-interested reason to provide a defense under a reservation of right until the coverage issue can be resolved.

With those basic tenets of Massachusetts law in mind, we turn to the language of the contracts that define the parties rights and obligations, in this case the Policies. See, e.g., *Hakim v. Massachusetts Insurers' Insolvency Fund*, 424 Mass. 275, 280 (1997) ("The interpretation of

an insurance contract is no different from the interpretation of any other contract, and we must construe the words of the policy in their usual and ordinary sense.") There is simply nothing in the Policies that provides a right to recoup defense costs that the Insurers have advanced because they concluded that it was in their economic interest to do so. The court rejects the argument relied upon in *Buss* and its progeny that to deny recovery of defense costs will give insureds more than they bargained for, i.e., partial payment for the cost of defending claims that were not covered by the policies that they purchased. The court finds the reasoning of *Jerry's* more persuasive: "In some circumstances, an insurance company may face a difficult decision as to whether a claim falls, or potentially falls, within the scope of the insurance policy. However, it is a decision the insurer must make." *Jerry's*, 2 A.3d at 543.

In this case, if the Insurers had refused to provide a defense, they would have incurred no liability to Vibram because the claims in the Underlying Action were not within the coverage provided. However, they determined in the exercise of their considered judgment that it was better to provide a defense and file an action for declaratory judgment. "It is undisputed that the [the Policies] did not contain a provision providing for reimbursement of defense costs under any circumstances. Thus, the right [the Insurers] attempt[] to assert in this case, the right to reimbursement, is not a right to which [they are] entitled based on the [Policies]." *Id.* at 544. Knowing that there is a risk that they would decide to provide a defense in cases in which they were uncertain as to whether a claim was covered because the claim was novel or the law unclear, the Insurers could have addressed the right of recoupment in their Policies; they didn't. The court ought not insert a policy provision that the parties did not agree upon.

In *Jerry's*, the Pennsylvania Court addressed two other arguments advanced by the Insured in this case. First, a reservation of rights letter cannot create additional rights for the

Insurer not found in the contract. "[P]ermitting reimbursement by reservation of rights, absent an insurance policy provision authorizing the right in the first place, is tantamount to allowing the insurer to extract a unilateral amendment to the insurance contract." *Id.* and cases there cited. The court finds this reasoning consistent with existing Massachusetts precedent.

In Joint Underwriting Ass'n v. Goldberg, 425 Mass. 46 (1997), the insurer defended its insured under a reservation of rights. After a jury returned an adverse verdict against the insured in the underlying action and while appeals were pending, the insurer settled the underlying action. It then sought reimbursement for the cost of the settlement. The SJC held that even if the claims asserted against its insured in the underlying action were not covered, the insurer had no right to recover. The reservation of rights letter did not provide a right of recovery, it only permitted the insurer to defend without waiving its right to deny an obligation to cover an adverse judgment. While the insured's personal counsel had urged the insurer to settle, no agreement was ever reached that the insured would reimburse the insurer. The SJC noted that the insurer had settled the claims to protect its own interests, as it was concerned about liability under chapter 93A that could, in theory, treble damages, if its refusal to settle were found unreasonable. As the insurer had no contractual right to reimbursement, it had no basis to demand it.

The instant case obviously does not involve a claim to recover an amount paid by an insurer in settlement of a claim, but *Goldberg* does stand for the general proposition that when an insurer provides payments that benefit the insured, but also avoid a perceived risk of exposure to even greater loss to the insurer, the reservation of rights letter does not support a claim for reimbursement. A right to reimbursement must be found in a contract.

In *Jerry's*, the Pennsylvania Supreme Court also rejected the insurer's claim that it was entitled to recoupment under a theory of unjust enrichment. 2 A.2d at 545. In this case, the Insurers point to the SJC's decision in *Cotter* and the careful consideration that the SJC gave to the disability insurer's argument that it could recover benefit payments under an equitable claim for restitution. Although, in *Cotter*, the SJC rejected the disability insurer's claim, the Insurers argue that liability policies are different and the Restatement (Third) of Restitution and Unjust Enrichment, § 35(1) supports their right of recovery.⁵

In Cotter, the SJC addressed the insurer's equitable claim as follows:

"A quasi contract or a contract implied in law is an obligation created by law 'for reasons of justice, without any expression of assent and sometimes even against a clear expression of dissent." "Salamon v. Terra, 394 Mass. 857, 859 (1985), quoting 1 A. Corbin, Contracts § 19 (1963). "Restitution is an equitable remedy by which a person who has been unjustly enriched at the expense of another is required to repay the injured party." Keller v. O'Brien, 425 Mass. 774, 778 (1997), citing Salamon v. Terra, supra. "The fact that a person has benefited from another 'is not of itself sufficient to require the other to make restitution therefor.' ... Restitution is appropriate 'only if the circumstances of its receipt or retention are such that, as between the two persons, it is unjust for [one] to retain it.' "Keller v. O'Brien, supra, quoting Restatement of Restitution § 1 comment c (1937), and citing National Shawmut Bank v. Fidelity Mut. Life Ins. Co., 318 Mass. 142, 146 (1945).

A determination of unjust enrichment is one in which "[c]onsiderations of equity and morality play a large part." Salamon v. Terra, supra. A plaintiff asserting a claim for unjust enrichment must establish not only that the defendant received a benefit, but also that such a benefit was unjust, "a quality that turns on the reasonable expectations of the parties." Global Investors Agent Corp. v. National Fire Ins. Co., 76 Mass.App.Ct. 812, 826 (2010), quoting Community Builders, Inc. v. Indian Motorcycle Assocs., Inc., 44 Mass.App.Ct. 537, 560 (1998). "The injustice of the enrichment or detriment in quasicontract equates with the defeat of someone's reasonable expectations." Salamon v. Terra, supra. The party seeking restitution has the burden of proving its entitlement thereto. J.A. Sullivan Corp. v. Commonwealth, 397 Mass. 789, 796 (1986); Hayeck Bldg. & Realty Co. v. Turcotte, 361 Mass. 785, 789 (1972), citing Andre v. Maguire, 305 Mass. 515, 516 (1940).

⁵ In Cotter, the SJC appeared to adopt the principles set out in Restatement (Third) of Restitution and Unjust Enrichment, § 35(1) and found that Goldberg did not preclude the possibility that an insurer could recover payments made under a reservation of right, but as explained below held that the insurer must still prove that retention of the payments would be unjust.

We have allowed claims for restitution in circumstances involving fraud, bad faith, violation of a trust, or breach of a duty; in "business torts" such as unfair competition and claims for infringement of trademark or copyright; and in some circumstances, as here, in disputes arising from quasicontractual relations. See *Keller v. O'Brien*, supra at 778–779. In order to prevail on its claim for reimbursement of disability insurance benefits it paid to Cotter under a reservation of rights, MetLife must establish not only that Cotter received a benefit, which is not disputed, but also that such a benefit was unjust.

Cotter, 464 Mass. at 644. The court found that Cotter's retention of the disability benefit payments was not unjust.

Clearly, the facts of *Cotter*, in which the insurer sought to recover benefit payments made to an individual, were more compelling for the insured than those of the present case, which involves a commercial dispute between an insurer and a large company. Nonetheless, liability policies are also sold to individuals (e.g., auto and homeowners policies) and small family businesses, as well as to manufacturing companies like Vibram. In order to prove that it is unjust for an insured to retain defense costs advanced in respect of a third-party claim under a reservation of rights, an insurer must do more than prove that a court ultimately held that the claims were uncovered. Otherwise, the insurer is, in effect, using equitable principles to insert a reimbursement provision into the liability policy that does not exist. If a policy holder demands coverage of a third-party claim that is clearly not covered under the policy, the insurer can reject it. If a policy holder engaged in misrepresentations or other wrongful conduct (for example, acting in concert with a third-party claimant to make an uncovered claim appear covered), retention of defense costs might well be "unjust." However, a good faith demand for a defense under a liability policy, which the insurer decides is likely enough to be valid that it will tender a defense under a reservation of rights, does not make retention of those defense costs unjust. Claims of unjust enrichment ought not be used to imply rights that the parties have not included

in the written contract that defines their relationship and covers the subject matter in dispute. See *Kennedy v. B.A. Gardetto, Inc.* 306 Mass. 212 (1940).

Recovery of Unpaid Defense Costs

Vibram seeks to recover expenses for defense of the Underlying Action incurred up to the date that the court held that the claims asserted in the Underlying Action were not covered by the Policies. It argues that in all cases in which a defense is provided under a reservation of rights, the duty to defend continues "until a declaratory judgment of no coverage is entered and that it does not retroactively disappear, even if no coverage is found." Vibram asserts that Metropolitan Property & Casualty Ins. Co. v. Morrison, 460 Mass.352 (2011) (Morrison) established this principle. The court disagrees. Rather, Morrison teaches that the duty to defend ends when there is no longer any chance that the facts alleged in an underlying action can support a covered claim. That will often, but certainly not always, be when a declaratory judgment resolves a coverage dispute.

Morrison involved claims allegedly covered by a homeowner's insurance policy. Briefly stated, the policy holders' son (covered under the policy) had injured a police officer while resisting arrest. The son pled guilty to various criminal charges, and the police officer filed suit against the son alleging negligent and reckless conduct. The insurer, Metropolitan, disclaimed any obligation to provide indemnity or a defense, but did bring a declaratory judgment action seeking to establish no coverage. The son did not answer the police officer's complaint, and a default judgment entered against him in the underlying personal injury action. On appeal, the coverage issue turned on (1) an interpretation of a policy provision that excluded coverage for

bodily injury resulting from intentional and criminal acts and (2)whether the entry of a default judgment in the underlying personal injury action, before a judgment of no coverage entered in the declaratory judgment action, established that the police officer's injury was the result of negligence, as alleged in the complaint, and therefore a covered claim.

The SJC began by restating the well-established principle that the "insurer's duty to defend is independent from, and broader than, its duty to indemnify." *Id.* at 351. It then went on to explain that "the duty to defend is determined based on the facts alleged in the complaint, and on facts known or readily knowable by the insurer However, when the allegations in the underlying complaint lie expressly outside the policy coverage and its purpose, the insurer is relieved of the duty to investigate or defend the claimant." *Id.* (internal quotations and citations omitted). Or, stated somewhat differently, when the allegations of the complaint do not "roughly sketch a claim covered by a liability policy," there is no duty to defend. Id.

In support of its position, Vibram quotes the following statement from *Morrison*: "a declaratory judgment of no coverage, either by summary judgment or after trial, does not retroactively relieve the primary insurer of the duty to defend; it only relieves the insurer of the obligation to continue to defend after the declaration.' 14 G. Couch, Insurance, supra at s. 200: 48, at 200-65 to 200-66." *Id.* at 352. Vibram, however, omits the very next sentence in the opinion: "Where material facts as to the duty to indemnify are in dispute, an insurer has a duty to defend until the insurer establishes that no potential for coverage exists. Id. at 200-21." *Id.* In other words, where it can be established that there is no coverage under the policy because there are no material facts necessary to determine the coverage issue in dispute, or because, even assuming all of the allegations in the underlying complaint are true, no coverage exists, there is no duty to defend. Indeed, in *Morrison*, the SJC remanded the case to the Superior Court to

determine whether Metropolitan owed its insured "a duty to defend at the time of the default judgment." The SJC instructed the trial judge to determine whether by that point the facts establishing no coverage were already known and undisputed. Clearly, the SJC was teaching that this was the time at which the duty to defend terminated, even if Metropolitan did not obtain its declaratory judgment until later.

Moreover, the rationale underlying the decision in *Jerry's*, and other similar cases, would be impaired if a duty to defend arose whenever an insured asserted a disputed right to coverage. In those cases, the courts held that the insurer had no right to recoup defense costs when a declaratory judgment entered that established that a third-party complaint did not assert a covered claim, because it was initially up to the insurer to decide whether to, in effect, hedge its bets and provide a defense when it was unsure of coverage: "In some circumstances, an insurance company may face a difficult decision as to whether a claim falls, or potentially falls, within the scope of the insurance policy. However, it is a decision the insurer must make. If it believes there is no possibility of coverage, then it should deny its insured a defense because the insurer will never be liable for any settlement or judgment." *Jerry's*, 3 A.2d at 542. If an insurer is bound to provide a defense whenever there is any chance that a policy might be interpreted to provide coverage, because of a dispute about policy term not alleged facts, the predicate for following the principle outlined in *Jerry's* is missing.

The court has found a single case in which a court ruled that a dispute concerning a question of law, resolved in favor of the insured, could nonetheless give rise to a duty to defend. In *Hugo Boss Fashions, Inc. v. Federal Ins. Co.*, 252 F.3d 608 (2001), the insurer rejected its insured's claims of coverage for a trademark infringement case filed against it and declined to provide a defense. The insured brought a declaratory judgment action seeking to establish

coverage and, while it was pending, settled the underlying trademark suit. The coverage case preceded to trial before a jury, which returned a verdict for the insured, both as to coverage and a duty to defend, and judgment entered for the insured. On appeal, the Second Circuit Court of Appeals reversed the District Court's judgment that the trademark suit was a covered claim. It held that the policy was unambiguous, as the term "trademarked slogans" had a specific meaning and, in consequence, the policy did not cover the underlying claim.

In a split decision the Court of Appeals, nonetheless, found a duty to defend. It held that "there are situations in which a *legal* uncertainty as to insurance coverage gives rise to (an at least temporary) duty to defend." *Id.* at 622. (Emphasis in original) The majority explained that there was sufficient "legal uncertainty (what does "trademarked slogan" mean)" to require the insurer "to undertake a defense of Hugo Boss until the uncertainty surrounding the term was resolved." *Id.* In other words, although it concluded that the term "trademarked slogan" had only one reasonable meaning, the possibility that a court might find it ambiguous gave rise to a duty to defend.

Justice Sotomayor (then an associate justice of the Second Circuit) dissented from this latter holding. She concluded that the majority's discussion of the duty to defend "finds no basis in New York law." Id. at 626. She went on to explain that:

The majority errs in confusing two types of uncertainty. The first is cognizable under New York law, the second is not. The first concerns the period during which the underlying action is pending when the insurer must defend the insured against any allegations that, if proven, would result in indemnification. This type of uncertainty is a well-established element of New York insurance law and is unquestioned here. The majority attempts to read a second category of "uncertainty" into New York law, however, concerning how a court might rule on the scope of policy terms. No such "uncertainty" is recognized under New York law apart from that arising from an "ambiguous" policy term.

Id. at 627. Anticipating to some extent the reasoning that the Pennsylvania Supreme Court adopted in *Jerry's*, Justice Sotomayor's dissent went on to point out:

In order to determine its duties under a policy, insurers are, as a matter of course, called upon to survey the relevant law and scrutinize the language of the policy to judge whether its terms are unambiguous. Insurers may err in their judgment concerning the unambiguity of a policy term but are given strong incentives to decide these questions correctly. If they do not, they can be forced to defend a costly coverage action or, if the finding of unambiguity was so far off the mark that "no reasonable [insurance] carrier would, under the given facts, be expected to assert it," *Sukup v. State*, 227 N.E.2d 842, 844 (N.Y. 1967), insurers can face even greater liabilities for breaching their duty of good faith.

All of this assumes that we entrust insurers with the initial decision concerning whether policy terms are unambiguous. In the case of a policy that uses a legal term of art, this inquiry requires a determination of whether that term of art is unambiguous. . . . And yet, the majority wants to deny Federal the opportunity to reach the same conclusion we have reached. It is difficult to understand why we should discourage Federal or any other insurer from making such determinations that are, in any case, subject to review and even sanction if erroneous.

Id. at 628-629 (Emphasis supplied).

Turning to the present case, first, this court's coverage Decision did not turn on whether some term of art used in the Policies was potentially ambiguous. The precise question before the court: would a liability policy providing coverage for an Advertising Injury cover a claim based on the unauthorized use of a famous person's name to sell a product, in this case a shoe, had not previously been decided in Massachusetts, or very many other courts. However, this court's Decision did not turn on whether any particular term of art used in the Policies was potentially ambiguous, but rather applied legal precedent to the interpretation of a series of policy provisions.

Additionally, the reasoning of Justice Sotomayer's dissent appears far more compelling with respect to the issues raised here than the majority opinion. In the first instance, it is for the insurer to decide whether any of the allegations in the complaint, if proved, could support a claim

covered by the policy. If it declines to provide a defense, it faces potential liabilities that will likely exceed the cost of the defense. However, if it elects not to defend the third-party claim, and its decision was correct as a matter of law, how could there ever have been a duty to defend?

The case now before the court does provide an additional confounding fact. The Insurers initially did agree to advance defense costs, but had not paid all outstanding invoices when the Declaratory Judgment of no coverage issued. Whether the insurer stopped paying because it became more convinced of the validity of its coverage position or because it was just slow in processing invoices does not appear to raise a disputed issue of fact material to this case. The relevant question is whether having initially agreed to pay for Vibram's defense, while prosecuting this declaratory judgment action, the Insurers are bound to continue to advance defense costs until this case is resolved. On the record before this court, it concludes that they are not.

While not perfectly analogous, the court notes that in *Herbert A Sullivan, Inc. v. Utica Mutual Ins. Co.*, 439 Mass. 387, 395 (2003), the insurer initially provided a defense to its insured under a general liability policy because one count of a multicount complaint alleged negligence. However, after the plaintiff in the underlying action amended its complaint and eliminated the negligence count, the insurer no longer had a duty to defend. The court finds that there is nothing inherent in an insurer's initial decision to provide a defense that precludes it from changing its mind, even while the declaratory judgment action is still pending.

The court can envision cases in which an insured may have relied on the insurer's initial decision and adopted a course of action in responding to the third-party claim such that it would suffer damage if the insurer discontinued the defense before the declaratory judgment action was resolved. For example, this might arise in situations in which the insurer is not only advancing

defense costs but actively providing the defense. However, this is not such a case. Upon receipt of the reservation of rights letter, Vibram exercised its right to retain its counsel of choice and to control its own defense, which given the amount of fees generated in a rather brief time was robust. There are no facts in the summary judgment record suggesting that the Insurers should be equitably estopped from discontinuing the advancement of defense costs, if the Policies permit them to do so. The court finds that, on these facts, the Insurers were permitted to change their mind with respect to advancing defense costs, as they were under no contractual obligation to pay them. The insured has neither a contractual or equitable claim for payment of unpaid costs of defense incurred up to the date the Decision issued.⁶

ORDER

For the foregoing reasons, the Insurers' motion for summary judgment is DENIED, to the extent that it seeks to establish a right to recoup defense costs previously advanced, and otherwise ALLOWED; and Vibram's motion for summary judgment is DENIED, to the extent it seeks to establish a right to recover any additional defense costs from the Insurers, and otherwise ALLOWED. Final judgment shall enter dismissing the counterclaims and declaring that the plaintiff insurance companies do not have a duty to defend the defendant Vibram in the

⁶ Vibram argues that the provision in the Policies that states "[the Insurers] will pay, with respect to any claim we investigate or settle, or any 'suit' against any insured we defend: . . . All expenses we incur . . . "requires payment of all defense costs through the date the Decision issued. Clearly, this policy term only provides that when the Insurers defend a claim they have to pay all costs that they incur. Presumably, when an insured receives a reservation of rights letter and elects to control its own defense, that provision requires reimbursement of all defense expenses incurred by the insured, at least all reasonable expenses. But, it does not create an independent duty to defend a claim, or pay for the defense of a claim, that the Insurers have decided not to defend. The duty to defend is determined under other policy provisions.

Underlying Action or indemnify it for any loss sustained in respect thereto. No party shall recover damages, and each party shall bear its own costs.

Mitchell H. Kaplah

Justice of the Superior Court

Dated: March 20, 2017